

VISIT...

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- Anticipating upticks in price movement using Level 2

● **Main Points:**

- One of Level 2's best advantages is in helping you identify the time "right before" the stock rolls up by a spread or so.
- **Know that for the most active/popular stocks L2 is generally not very useful** (eg INTC WCOM DELL) and for some net stocks (like DCLK); I rely on 1- and 3-minute tick charts much more for these stocks. Don't over-rely on L2; it can frequently **"fake you out"** for example if you see what seems to be a wall of buyers/sellers it can go against you in a hurry, as the mm's on the most actives don't show their hand on L2. For the most actives, the overall day's trend seems to be a more reliable indicator (eg is it above it's opening price at 11:00? if so it will probably carry its trend thru to the end of day).
- Remembering that T&S is your best indicator, you can also **see when sellers are done** with a stock and will let it run by a spread or two using your Level 2 window. This happens when the **ax backs away from the inside ask and/or you see a lead mm jump to the inside bid**.
- One of the skills you want to refine is how to **"jump in right before it upticks"**; using L2 properly can help you with this. Remember, when trying to catch a bottom your chances are much better when you're buying the first sign of strength in a stock that has just dropped sharply vs buying into a slow decline (and of course the reverse is true for shorting/selling tops; the market reacts to extremes fairly quickly vs. slow price erosion or growth).
- Notes: In general, I find **SBSH** is particularly obvious about making his **buying** known by holding the inside bid (eg in NOVL) and **MLCO** is somewhat obvious about making his **selling** known by holding the inside ask (eg in WCOM). This all depends on the particular stock etc. but these are two consistent trends I've seen over the last couple years for these two mms. This is an overgeneralization, of course, but it's one observation I've found that tends to hold true over time for nasdaq techs (like the "10:30 nasdaq bounce").

Examples:

Anticipating Upticks using Level 2

What do you see happening in the two Level 2 windows below?

NOVL	-	17 7/16	b	17 7/16	a	17 1/2	21 x 30	2.82M	12:14
MMID	Bid	A	MMID	Ask	A				
ISLD	17 7/16	21	INCA	17 1/2	30	12:14	17 7/16	1.00K	
BRUT	17 7/16	10	ISLD	17 1/2	17	12:13	17 1/2	200	
BTRD	17 7/16	10	BTRD	17 1/2	10	12:13	17 7/16	100	
GSCO	17 7/16	10	MASH	17 1/2	1	12:13	17 7/16	500	
MLCO	17 7/16	10	SLKC	17 9/16	1	12:13	17 1/2	200	
FBCO	17 7/16	10	LEHM	17 9/16	1	12:12	17 7/16	1.00K	
BEST	17 7/16	10	MLCO	17 5/8	10	12:12	17 7/16	800	
WEDB	17 7/16	10	SHWD	17 5/8	5	12:12	17 7/16	500	
AGED	17 7/16	1	NITE	17 5/8	1	12:12	17 7/16	400	
WSTI	17 7/16	1	SWST	17 5/8	1	12:12	17 9/16	400	
DKNY	17 3/8	25	FCAP	17 5/8	1	12:12	17 1/2	1.00K	
REDI	17 3/8	20	JPMS	17 5/8	1	12:12	17 1/2	1.00K	
INCA	17 3/8	15	SSSH	17 11/16	10	12:12	17 1/2	2.00K	



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ISLD	17 7/16	21	INCA	17 1/2	10	12:13	17 1/2	200	
BRUT	17 7/16	10	REDI	17 9/16	20	12:13	17 1/2	300	
BTRD	17 7/16	10	INCA	17 1/2	15	12:13	17 1/2	200	
GSCO	17 7/16	10	SLKC	17 9/16	1	12:13	17 1/2	300	
MLCO	17 7/16	10	LEHM	17 9/16	1	12:13	17 1/2	200	
FBCO	17 7/16	10	MLCO	17 5/8	10	12:13	17 1/2	300	
BEST	17 7/16	10	SHWD	17 5/8	5	12:13	17 7/16	100	
WEDB	17 7/16	10	NITE	17 5/8	1	12:13	17 7/16	800	
BEST	17 7/16	10	NITE	17 5/8	1	12:12	17 7/16	500	
WEDB	17 7/16	10	SWST	17 5/8	1	12:12	17 7/16	800	
AGED	17 7/16	1	FCAP	17 5/8	1	12:12	17 7/16	500	
REDI	17 3/8	20	JPMS	17 5/8	1	12:12	17 7/16	400	
INCA	17 3/8	15	SSSH	17 11/16	10	12:12	17 9/16	400	

Bullish, trades going off at ask

It looks as though the sellers using INCA may be finished and the stock may go up by a spread. The real question is whether it will **continue** up past the 17 1/2 mark.

The **momentum** is telling you that **buyers are coming in**, both in the time & sales window as well as in the level 2 width of the sellers (yellow ask) getting narrow as their stock is sold.

(notice NOVL has more than doubled since these snaps were taken just last November!).

Daytrader's Play/Quiz: Well, **depending on how fast the momentum is**, which of these five things would you do?

1. Join the ISLD bidders at 17 7/16 and hope for a fill (unlikely)
2. Enter a new bid at 17 15/32, to try and split the spread
3. Pay up retail and enter a buy limit at 17 1/2 (last resort, only do this if you're sure the 17 1/2's gonna get taken out fast)
4. Do nothing
5. Short it

Well, which would you do? I'd try #2, unless the yellow ask band had collapsed in a hurry (under 5 seconds) and the 17 1/2 sellers are going to disappear, in which case #3 is ok.

It's a zero potential short, all the buyers at 17 7/16 would have to step off their bids for the price to drop from here.

Try to avoid watching if you see a high-potential trade; set narrow stops to protect your capital and play when the indicators line up, as in here.

Where would you set your stop? The way I daytrade is to keep it really tiny; the reason I entered was a "bounce off 17 7/16 play", if I'm wrong then so be it, I sell and re-enter when buying strength is truly there.

In this case, I'd buy it and stop out at 17 7/16 if the bidders are almost all gone. That is, if this wall of 11 bidders dropped to 2-3 and a steady stream of selling is going on in time & sales at 7/16 then I'd probably sell there as well, the stock may well lose a couple more spreads (or more) before bouncing, I don't want to be there until buyers are back.

Remember, daytrading is largely about stopping out quickly when you're wrong, and nurturing your winners for hopefully > 3-5 spreads (or more) per trade for round trips averaging 1 to 10-20 minutes or so. Confusing daytrading with swing and overnight holds and investing is a leading "cause of death" for daytraders who want to make a career out of it. If it's against me 2-3 spreads I'm outta there.

You should risk no more than 1-3% of your capital on each trade, I prefer to make it even tighter and stop out if it's against me by \$80-\$150, whatever that translates into in terms of share price and number of shares I'm holding.



Another example to study:

High-percentage Level 2 uptick plays

should be capitalized on whenever possible. For the actives like WCOM L2 is generally not useful, particularly when there's no "directional bias" evident in the buyers and sellers.

A gift like this one to the right should not be overlooked, however. You know this stock will bounce to at least 77 1/8 in all likelihood based on what you see here, right?

Now I don't want to buy a \$77 stock for a fractional gain; I'd use the 1-minute chart support/resistance levels to confirm the upside potential of the trade before going in:

What does this chart tell you about WCOM's price action?

WCOM + 77 1/16 b 77 a 77 1/16 215 x 17 10.7M 15:25									
MMID	Bid	B...	MMID	Ask	A...				
MASH	77	214	INCA	77 1/16	17	77	1/16	100	
SBSH	77	77	NFSC	77 1/16	7	77	1/16	100	
MMSE	77	68	ISLD	77 1/16	7	77		2.50K	
ISLD	77	57	COST	77 1/8	10	77	1/16	300	
MADF	77	52	MLCO	77 1/8	10	77		100	
BRUT	77	46	PWJC	77 3/16	1	77		100	
PERT	77	36	OLDE	77 1/4	10	77	1/16	300	
LEGG	77	35	FSCO	77 1/4	10	77	1/16	100	
MLCO	77	27	HRZG	77 1/4	2	77		100	
HRZG	77	19	ARCA	77 5/16	22	77	1/16	200	
PWJC	77	17	SLKC	77 3/8	10	77	1/16	100	
GSCO	77	10	MSCO	77 3/8	10	77		100	
NITE	77	10	JRMS	77 3/8	1	77		100	
ARCA	77	10	SBSH	77 7/16	10	77	1/16	100	
BTRD	77	10	DLJP	77 7/16	10	77	1/16	100	
COWN	77	10	MASH	77 1/2	3	77		100	
DLJP	77	10	NITE	77 9/16	10	77	1/16	100	
SWCO	77	10	PRUS	77 9/16	1	77	1/16	100	
PRUS	77	9	SHWD	77 9/16	1	77	1/16	100	
FCAP	77	9	SALI	77 5/8	9	77		100	
AGED	77	8	AANA	77 5/8	1	77		100	
						77	1/16	200	



Ok it's falling, do you buy? Actually I say yes because of the following:

- Heavy volume at 77 since stops are taken out. Possible reversal play off whole number support.
- My Level 2 shows a lot of buyers are willing to pay 77 for it, "the crowd" is lining up to pay 77.
- T&S isn't all red, we're about even money on buyers vs sellers.
- I've seen a lot of buying reversals in WCOM throughout the selling, telling me the stock *does* make frequent positive retracements as it sells off. (they don't have that in any books either)...example at every major fraction buyers come back in, at least for 1/4- 1/2 point, so I have every reason to expect buyers will be here at 77, enough for a scalp at minimum.
- Looking back at the 5-day chart shows previous support at 77, eg it has bounced off 77 at least once or twice in the last 5 days.
- Last but not least, I will be prepared to sell at 76 15/16 or 7/8 if I'm wrong and all the 77 bidders get taken out (sold to).

In summary, Level 2 can be used on rare occasions by itself to identify good trade entries, but remember its role is a secondary one to help you time precise intra-spread trade entries and exits, using market/sector direction, T&S and 1-minute charts as primary decision support tools.